

Senate Taxation Committee Hearing
SB 561
March, 2007

My name is Tom Luttrell, I am a Sr. Vice President of Continental Resources, Inc. and am submitting this testimony opposing Senate Bill 561.

Continental Resources is the second largest oil producer in Montana. Our Company has drilled wells in your state since the early 1990's. We operate over 100 wells in the state and have an office in Sydney.

84 of our wells are in Richland County and produce from the Bakken formation. Over 400 wells have been drilled in Richland County since 2002. These wells produce a total of over 50,000 barrels of oil per day. Drilling these wells requires expensive state-of-the art technology. **The average cost to drill and complete one of these wells has about doubled since 2003 (\$2 mm in 2003 to \$3.8 mm now).**

The Richland County oil field is an excellent example of how Montana has successfully used incentives to increase investment for developing the states oil and gas reserves. **The incentives are clearly a driver for companies to persevere the technological challenges and make the multi-hundred million dollar investment in drilling.**

It is more difficult and expensive to explore for oil and gas in Montana than other parts of our nation;

- The nature of the oil and gas deposits are complex, the wells are more costly to drill and operate because of various factors including cold weather and work force.
- Montana's oil price is inferior – currently almost \$10 per barrel less than the southern oil and gas basins.
- Companies consider these factors when allocating their exploration budgets – **the current incentives help offset the negatives of exploring in Montana**

The incentives have reaped huge benefit. The state's oil production has doubled since January 1994 and is now over 3 million barrels of oil produced per month. This increased business is a vital part of Montana's economy. The oil and gas industry is particularly important to eastern

Montana where the increased activity directly impacts thousands of citizens by providing well paying jobs, distributing millions in royalty payments, supporting countless restaurants, motels, stores and other private businesses and paying sales taxes collected by those businesses.

Montana has vast potential for oil and gas exploration from other geologic formations besides the Bakken which need further exploration. The dramatic incline of the State's production can be maintained, but it takes enormous investment from both local and large national companies. It is that investment you target by providing the incentives to explore.

Montana has long realized the benefit of providing these incentives as do other oil producing states;

- In 2006 Oklahoma passed an incentive for drilling horizontal wells which exempts the states entire production tax from the first 48 months of production.
- North Dakota is advancing a bill to eliminate the incentive price triggers for horizontal Bakken wells.

It is vitally important for our nation to develop domestic energy resources, something which is increasingly becoming more difficult, risky and expensive to do.

In Montana, where the historical positive message lawmakers have given to industry is working, it is extremely important to keep the momentum going forward.

Please vote no on SB 561 and thus send a reaffirming message to industry that Montana encourages exploration.

Thank you for your consideration